The Small Business Tax Equity Act

The Small Business Tax Equity Act will create an exception to Internal Revenue Code Section 280E that allows businesses operating in compliance with state laws to take business-related deductions associated with the sale of marijuana just like any other legal business.

The Problem

Section 280E of the federal tax code prohibits anyone engaged in the purchase or sale of Schedule I or Schedule II substances from deducting their business expenses from their taxes.

To date, 38 states have legalized medical or adult use marijuana in some form. However, marijuana is currently a Schedule I substance under federal law and therefore businesses operating in compliance with state law are not allowed to deduct the ordinary expenses of running a small business, like rent, utilities, and payroll. They cannot claim the Work Opportunity Tax Credit if they hire a veteran; they cannot depreciate their American-made irrigation equipment; and they cannot take any credit or deduction relating to construction or operation costs if they want to revitalize a building for their operations.

Prohibiting marijuana businesses from deducting their business expenses means that marijuana businesses often pay federal income tax rates that are orders of magnitude higher than non-marijuana businesses. Disallowing business expense deductions creates a disproportionate burden that can put small dispensaries out of business and prevents many small businesspeople from entering the industry in the first place.

The Solution

The Small Business Tax Equity Act will finally allow state regulated marijuana businesses to deduct their business expenses on their federal taxes, restoring equity with other legal businesses and helping make the legal cannabis competitive.

Supporters:

NORML, Minority Cannabis Business Association, National Cannabis Industry Association, U.S. Cannabis Council, American Trade Association for Cannabis and Hemp, and National Cannabis Roundtable